

## Message Text

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PAGE 01 LAGOS 12834 310856Z

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E. O. 11652: N/A

TAGS: ENRG, BEXP, EIND, NI

SUBJ: NIGERGAS METHANE FUEL PROPOSAL

REF : A) STATE 289056, B) LAGOS 6268, C) LAGOS 11780

1. MINISTRY OF INDUSTRIES HAS HIRED CHEM SYSTEMS LIMITED, 28 ST. JAMES SQUARE, LONDON, AS CONSULTANTS FOR PETROCHEMICAL COMPLEX. MANAGING DIRECTOR ALAN D. PLAISTOWE WAS IN LAGOS DURING EARLY DECEMBER VISIT BY SENIOR EXECUTIVES OF U.S. DESIGN AND ENGINEERING CONSTRUCTION FIRMS, AND AGREED TO BRIEF U.S. DELEGATION IN PRIVATE SESSION AT HOME OF ECONOMIC COUNSELOR. WE RAISED NIGERGAS PROPOSAL TO MANUFACTURE METHANE FUEL DURING DISCUSSION.

2. PLAISTOWE HAD NOT HEARD OF NIGERGAS PROPOSAL. HOWEVER, HE SAID CHEM SYSTEMS WOULD PROBABLY NOT FAVOR USING SURPLUS METHANE GENERATED BY PETROCHEMICAL PROJECT TO PRODUCE METHANOL FOR METHANE FUEL BECAUSE U.S. IS ONLY SERIOUS MARKET FOR SUCH FUEL, NO ONE IMPORTS IT YET, AND THERE ARE CONSIDERABLE HEALTH HAZARDS INVOLVED IN ITS USE WHICH HE THINKS MAKE THE CONCEPT IMPRACTICAL. HE MENTIONED THAT HOUSTON NATURAL GAS HAD SCALED BACK A METHANE FUEL PROJECT IN SAUDI ARABIA FOR SIMILAR REASONS. PLAISTOWE THOUGHT IT MORE LIKELY THAT SOME METHANE WOULD BE USED IN TWO LARGE AMMONIA UREA FERTILIZER PLANTS, AND REST WOULD BE BURNED AS GAS TO GENERATE ELECTRICITY LOCALLY.

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PAGE 02 LAGOS 12834 310856Z

3. WE WERE UNABLE TO DISCUSS NIGERGAS PROPOSAL IN DETAIL WITH

OYEKAN AT METING U.S. FIRMS HAD WITH MINISTRY OF INDUSTRIES TEAM DECEMBER 9, AND OYEKAN IS OUT OF TOWN AT MOMENT. WE WILL CONTACT HIM ON HIS RETURN TO SEE IF HE CAN ADD ANYTHING. OUR GUESS IS THAT FOR TIME BEING MINSTRY WOULD PREFER TO WAIT FOR CHEM SYSTEM'S REPORT AND RECOMMENDATIONS BEFORE COMMITTING ITSELF ON ANY SPECIFIC PROPOSALS.

4. OYEKAN DID TELL VISITING U.S. EXECUTIVES THAT MINISTRY OF INDUSTRIES IS LOOKING FOR JOINT VENTURE PARTNERS IN PETROCHEMICAL PROJECTS. AS NOTED IN REF (C) B.F. GOODRICH HAS AN INSIDE TRACK ON THIS, AND HAS IN EFFECT BEEN INVITED TO BECOME A PARTNER IN AS MANY PROJECTS WITHIN THE OVERALL COMPLEX AS IT HAS CASH AND TECHNICAL COMPETENCE TO HANDLE. PLAISTOWE TOLD THE EXECUTIVES THAT ONE OF CHEM SYSTEMS FUNCTIONS WILL BE TO FIND AND EVALUATE JOINT VENTURE PARTNERS, WHO WILL HAVE A SAY IN BOTH THE ECONOMICS AND DESIGN SPECS OF THE PROJECTS AS WELL AS THEIR OPERATION. HE ADDED THAT HE WILL ALSO RECOMMEND THE FMG TAKE LK A PARTNER TO MANAGE THE CORE PROCESSING UNITS FOR AT LEAST FIVE YEARS. ONE PRACTICAL PROBLEM, WHICH THE VISITING EXECUTIVES AGREED MUST BE RESOLVED BEFORE ANY JOINT VENTURE PARTNER WILL COMMIT HIMSELF, IS THAT, WHILE THE FMG HAS 100 PERCENT OWNERSHIP OF ALL RAW NATURAL GAS, THERE IS NO CLEAR POLICY DECISION AS TO HOW FAR THIS TOTAL OWNERSHIP WILL EXTEND INTO THE VARIOUS STAGES OF THE PETROCHEMICAL COMPLEX, I.E. DOES IT END AT GATHERING THE RAW GAS, INCLUDE THE CORE GAS PROCESSING UNITS, OR REACH FURTHER DOWNSTREAM INTO INDIVIDUAL PRODUCT PROCESSING PLANTS, FOR EXAMPLE PVC.

5. PLAISTOWE ALSO THOUGHT THAT IT NOW LOOKS AS IF THE MINISTRY OF INDUSTRIES WILL GATHER ITS OWN RAW GAS FOR THE PETROCHEMICAL COMPLEX FROM SEVERAL OF THE BEST FIELDS ADJACENT TO PORT HARCOURT, RATHER THAN WAITING FOR MINISTRY OF PETROLEUM AND ENERGY TO MAKE UP ITS MIND ON THE NATIONAL GAS GATHERING SYSTEM CONNECTED WITH THE LNG PROJECTS. ON THE OTHER HAND, MINISTRY OF PETROLEUM AND ENERGY OFFICIALS TOLD U.S. EXECUTIVES THEY DIDN'T THINK MINISTRY OF INDUSTRIES WOULD RETAIN COMPLETE RESONSIBILITY FOR PETROCHEMICALS FOR LONG, AND THAT PETROCHEMICALS WOULD EVENTUALLY HAVE TO BE TIED TO MPE IN SAME WAY AS LNG, REFINERIES, AND PIPELINES. THERE IS OBVIOUSLY SOME BUREAUCRATIC INFIGHTING GOING ON. PLAISTOWE SAID ORIGINAL FOSTER WHEELER FEASIBILITY STUDY RECOMMENDED CREATION OF A NATIONAL CORPORATION TO RUN THE PETROCHEMICAL COMPLEX, AND LIMITED OFFICIAL USE

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PAGE 03 LAGOS 12834 310856Z

CHEM SYSTEMS AGREES THIS IS A NECESSITY. NIGERIAN NATIONAL GAS COMPANY HAS BEEN GAZETTED, AND THUS EXISTS ON PAPER, BUT HAS NO STAFF OR OFFICES. THIS COMPANY, WHICH IS SUPPOSED TO ADMINISTER THE FMG SHAREHOLDING IN LNG AND OTHER GAS PROCESSING OPERATIONS, AND WHICH WOULD THEREFORE PROBABLY INCLUDE THE PETROCHEMICAL COMPLEX, WOULD BE MORE LIKELY TO COME UNDER THE JURISDICTION OF THE MINISTRY OF PETROLEUM AND ENERGY THAN THE MINISTRY OF INDUSTRIES. THUS, TO ANSWER NIGERGAS' QUESTION IN PARAGRAPH THREE

REF (A), IT IS PROBABLE THAT AT SOME FUTURE DATE THEY WILL HAVE TO DEAL WITH THE MINISTRY OF PETROLEUM AND ENERGY; HOWEVER, FOR THE TIME BEING, THEY SHOULD STICK WITH THE MINISTRY OF INDUSTRIES TO AVOID CREATING CONFUSION.

6. IN LIGHT OF ABOVE, WE WOULD SUGGEST THAT BEST APPROACH FOR NIGERGAS WOULD BE TO GET IN TOUCH WITH CHEM SYSTEMS TO FAMILIARIZE CONSULTANTS WITH DETAILS OF THEIR METHANE FUEL PROPOSAL. PLAISTOWE SAID HE DOES NOT EXPECT TO ISSUE BID SPECIFICATIONS ON THE PETROCHEMICAL COMPLEX FOR AT LEAST ONE YEAR, SO NIGERGAS SHOULD HAVE AMPLE TIME. THEY WILL NEED TO CONVINCE CHEM SYSTEMS OF MERITS AND VIABILITY OF PROJECT IF THEY ARE TO GET ANYWHERE AT ALL WITH IT. PROVIDED THEY CAN DO SO, THEY MAY ALSO BE ABLE TO TALK WITH CHEM SYSTEMS ABOUT HOW THEY COULD FIT INTO OVERALL PICTURE AS ONE OF THE JOINT VENTURE OPERATING PARTNERS WHICH MINISTRY OF INDUSTRIES HAS ALREADY SAID IT WANTS. ALTHOUGH CHEM SYSTEMS LONDON OFFICE IS HANDLING THIS CONTRACT, ITS AMERICAN PARENT COMPANY IS LOCATED IN NEW YORK CITY, SO NIGERGAS COULD MAKE INITIAL CONTACT IN U.S. IF IT SO DESIRES. (FYI THERE ARE SEVERAL INTERESTING INTER-RELATIONSHIPS IN CHEM SYSTEMS AWARD. PLAISTOWE HIMSELF WORKED FOR TEN YEARS WITH STONE AND WEBSTER, ONE OF U.S. FIRMS REPRESENTED IN DECEMBER DELEGATION. FOSTER WHEELER DID THE ORIGINAL FEASIBILITY STUDY FOR THE PETROCHEMICAL COMPLEX IN 1972, AND ACCORDING TO MEMCON IN OUR FILES, JULIAN SALOMON, PREVIOUS LOCAL REP OF F-W, SAID HIS FIRM RECOMMENDED CHEM SYSTEMS TO FMG ALSO PARTLY ON BASIS OF PREVIOUS EMPLOYEE RELATIONSHIP. END FYI)

7. WITH REGARD TO FINANCING DIFFICULTIES NOTED BY HEFNER, EMBASSY AWARE OF COURSE THAT CONTROVERSY OVER LETTERS OF CREDIT HAS HURT NIGERIA'S REPUTATION IN INTERNATIONAL BANKING COMMUNITY AND MADE BORROWING DIFFICULT IF NOT IMPOSSIBLE. OYEKAN SAID FMG HAS OPEN MIND ABOUT FINANCING PETROCHEMICAL PROJECT. HOWEVER, IT IS HIGHLY IMPROBABLE THAT FMG WOULD PUT UP ALL THE MONEY FOR NIGERGAS LIMITED OFFICIAL USE

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PAGE 04 LAGOS 12834 310856Z

PROJECT, WHICH ACCORDING TO REF (A) INVOLVES DOLLARS 531 MILLION, IN VIEW OF LOWER THAN ANTICIPATED OIL REVENUES AND FIRM DESIRE OF NEW GOVERNMENT TO TRIM OVERAMBITIOUS SPENDING PLANS OF THIRD DEVELOPMENT PLAN BACK TO REALISTIC LEVELS. CHEM SYSTEMS DOUBTS ABOUT PROJECT ALSO WON'T MAKE IT ANY EASIER TO CONVINCE FMG IT HAS TO FOOT THE BILL ALONE. DEPARTMENT MIGHT WANT TO DISCUSS THIS WITH HEFNER. EMBASSY THINGS IT CAN REASONABLY BE NOTED THAT CEMENT SITUATION WAS UNIQUE, PROBABLY ANYWHERE IN THE WORLD, AND DEMANDED DRASTIC ACTION; THAT NIGERIANS NEVERTHELESS AWARE THEIR REFUSAL TO HONOR IRREVOCABLE LETTERS OF CREDIT HAS HAD HARMFUL IMPACT ON THEIR FINANCIAL REPUTATION; THAT FMG UNLIKELY TO REPEAT SUCH ACTION; AND THAT NIGERIA'S PAST RECORD IN MATTERS OF FOREIGN CAPITAL INVESTMENT HAS BEEN VERY GOOD.

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## Message Attributes

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